

Journal of Student Financial Aid

Volume 27 | Issue 1

Article 4

2-1-1997

Enacting National Service and Student Loan Reform: What Really Happened

Michael Mumper

Follow this and additional works at: <https://ir.library.louisville.edu/jsfa>

Recommended Citation

Mumper, Michael (1997) "Enacting National Service and Student Loan Reform: What Really Happened," *Journal of Student Financial Aid*: Vol. 27 : Iss. 1 , Article 4.

Available at: <https://ir.library.louisville.edu/jsfa/vol27/iss1/4>

This Issue Article is brought to you for free and open access by ThinkIR: The University of Louisville's Institutional Repository. It has been accepted for inclusion in Journal of Student Financial Aid by an authorized administrator of ThinkIR: The University of Louisville's Institutional Repository. For more information, please contact thinkir@louisville.edu.

Enacting National Service and Student Loan Reform: What Really Happened

By Michael Mumper

Michael Mumper is a visiting scholar at the American University in Bulgaria. He is on leave from the Department of Political Science at Ohio University where he is an Associate Professor.

In 1992, enactment of a new national service program that would give its participants post-service help paying for college and living stipends during their service period seemed almost impossible. Congress had rejected an attempt by Senator Sam Nunn and Representative William McCurdy to establish a full-scale national service program in favor of a Bush Administration proposal that set up several modest programs to encourage and coordinate voluntary service activities (Commission on National and Community Service 1993, 13-15). This plan included neither college benefits nor living stipends for most servers. In doing so, Congress had implicitly decided that the federal government ought to play only a minor role in encouraging voluntary service through existing private sector and nonprofit organizations.

Enactment of a large new federal student loan program seemed almost as unlikely. Certainly, members of Congress were dissatisfied with the skyrocketing default rates and the rapidly rising costs of the Federal Family Education Loan (FFEL) Programs (Zuckman, 1991). Nevertheless, in the 1992 debate over the Reauthorization of the Higher Education Act, Congress turned back an effort to replace the FFEL Programs with a system of direct loans in which the federal government would take over the responsibilities currently performed by private lenders and guarantee agencies. After a long and acrimonious debate, Congress approved only a small "demonstration project" of direct lending, affirming the existing student loan programs (Chronicle of Higher Education, August 5, 1992, A20-23).

Yet, less than two years after Congress had rejected these earlier versions, President Bill Clinton signed into law bills that established a new national service program. This initiated a fundamental reform of student loans. In August 1993, he signed the National and Community Service Trust Act that allows as many as 150,000 people per year to participate in service projects. In return, participants receive an educational award and a living stipend plus health and child care benefits. Then in September 1993, he signed a measure to phase in a new student loan program to replace at least 60% of all FFEL program loans with direct loans in four years, with the possibility to replace the entire program in less than a decade (Zuckman, 1993). Why did Congress, which had rejected both plans just months before, reverse its field? How could these dramatic changes have happened so quickly?

Two important books attempt to answer these questions. While both tell the story of what happened in the enactment of national service and student loan reform, their stories are quite different. In *National Issues in Education: Community Service and Student Loans*, John Jennings (1994) brings together essays by ten of the leading participants from all sides of the two debates. In these essays, supporters and opponents of national service and student loan reform explain their actions and interpret the outcome. The focus is on the merits and shortcomings of the various plans and the politics of their enactment. *The Bill: How the Adventures of Clinton's National Service Bill Reveal What*

Linking National Service and Loan Reform Prove Key

is *Corrupt, Cynical—and Noble—About Washington* by Steven Waldman (1994) is a behind-the-scenes account of what “really happened.” He ignores the high ideals and careful arguments presented by Jennings to instead offer an exposé on Washington politics. Waldman crafts hundreds of interviews into an account of the strategies employed by the players, their hidden motives, and the compromises that led to the enactment of national service and student loan reform.

Individually, these books give an incomplete, even distorted, view of national politics. In the Jennings volume, the participants’ descriptions are often so different that the reader is left to wonder if they were all writing about the same events. Each essay describes a picture seen from the perspective of a single participant. Conversely, Waldman focuses so much on the inside wheeling and dealing, that it is not clear whether the players had any principled motives. Most seem driven by only narrow political or financial interests. When viewed together, however, the two books yield a valuable account of how and why these important programs took their final shape.

National service and direct lending are an odd combination. Before the 1992 presidential campaign they had been separate and unrelated initiatives with different rationales and constituencies. They were even debated before different Congressional subcommittees. However, during 1992 and 1993, they became inexorably linked. In sorting out the complex relationship between the two, these books take very different approaches. Jennings deals with them separately, while Waldman writes about them together. In taking this more comprehensive approach, Waldman sheds light on things that Jennings’ more narrow focus obscures. In particular, he is able to see the synergism that the linkage created, and the critical role it played in moving the issues onto the national agenda.

Waldman traces the origin of the link directly to Bill Clinton. Deeply committed to the ideal of service, but having avoided going to Vietnam, Clinton was attracted to a nonmilitary service program that gave volunteers the same moral status and post-service benefits available to veterans. Clinton also recognized the political benefits of the link. In conducting focus groups for the Clinton campaign, pollster Stanley Greenberg made an interesting discovery. As Waldman describes it, Greenberg found that:

[N]either service nor loans alone stirred much excitement in the focus groups. A service program appealed to a narrow segment of do-gooders; and while voters liked the idea of extra college aid, they feared it would be a “bad value” for taxpayers because it would give people something for nothing.

Slapped together, however, these two pieces of policy driftwood made a spark. When tied to service, the loans did not seem like profligate liberalism, because Clinton was asking for something in return. The service provision, in effect, “took away the notion of entitlement,” Greenberg said. Conversely, the service program no longer seemed elitist, because it was helping middle-class working families send their kids to college (12).

In assessing the political advantage of linking the two issues, Greenberg observes, "It showed that Clinton was setting a different kind of standard. He was identifying with values of frustrated middle-class Americans" (quoted in Waldman, p. 12).

Together, the two issues became the centerpiece of a new domestic policy initiative in which college aid could be earned for participation in service projects. Waldman notes that by framing the issues in this way, Clinton could offer the middle-class a substantial new benefit without creating the impression he was pandering to special interests. It quickly became part of Clinton's regular campaign speech. "Opportunity for all" he would say, "means giving every American the opportunity to borrow the money to go to college and...pay it back as a percentage of income over several years, or with years of national service here at home—a domestic GI bill" (quoted in Waldman, p. 6).

Clinton vowed to expand availability of student loans, but never promised to create a new student loan program to replace the FFEL programs. Linking service with college loans did not necessarily mean linking it with the controversial direct lending program. Indeed, it would have been easy to create a service plan where students earned loan forgiveness without making any changes to existing student loan programs. Yet, from the outset, the Clinton Administration tied the fight for national service directly to the push for direct lending. The link proved critical a little later.

As Waldman describes it, in the months after the election it became clear that the total cost of the national service plan was going to be far higher than the original estimates. When the cost of living stipends, health and child care benefits, and loan forgiveness were added up, the annual price tag was estimated to run as high as \$14 billion. Having decided they could not afford such a high price, Administration policy-makers began looking for ways to reduce its costs. First, they cut the size of the program and the benefits offered. Second, they brought direct lending into the service proposal, because direct lending was estimated to save \$6 billion over five years if it replaced the FFEL programs. By putting the two programs in the same package, the saving from direct lending could be used to offset part of the cost of the national service plan. What was a \$14 billion program on its own became an \$8 billion program as part of the package. National service and direct lending did not become intertwined because of a deep commitment to the link. Jennings makes clear that most of the participants on each issue had little concern for the other. The link was made because of the political benefits it gave the President both during his campaign and in the enactment of the service program.

Ideas and Interests In the Policy Process

These two books illustrate that what you see when you watch the policy process depends on how you look. By examining the words and thoughts of the participants, as Jennings does, policy-making appears to be about reasoned arguments and personal convictions. Viewed in this way, ideas seem to drive the process. By looking instead for the hidden motives of the participants, as Waldman does, the process appears to be about advancing self-interest and covering up conflicts of interest. Ideas appear to play almost no role.

As portrayed by Jennings, the debate over national service revolved around competing definitions of what constituted service and the obligation of citizens to serve. In a provocative essay, Doug Bandow (1994) asserts that the

*"National service
and direct lending
did not become
intertwined because
of a deep commitment
to the link."*

"underlying assumption of the Clinton program—that there is a dearth of service that can be remedied only through yet another raid on taxpayers—is simply false" (p. 75). Bandow argues that there is already plenty of service going on in churches, service groups, and community associations; and the best thing the government can do to help them is to stay out of their way. In a counterpoint essay, Roger Landrum (1994) portrays national service as the product of a new social movement that seeks to rebuild the sense of community and the disappearing ethic of service. Not only are service projects a good idea, they are essential to the future health of the nation. By organizing his compilation around such spirited debates, Jennings advances the view that public policy emerges out of a vital public dialogue among deeply committed experts.

Reasoned debates about how to rebuild communities or rekindle the ethic of citizenship are virtually absent from Waldman's account. In his version, policy-making revolved around the efforts of special interests to gain political and/or financial advantage. Military groups were unwilling to support the plan, not because they opposed service, but because servers might receive greater benefits than veterans. Union leaders were opposed to the plan, not because they opposed service, but because servers might replace union workers. College leaders opposed the plan, not because they opposed service, but because it might lead to cuts in traditional student aid programs. Even managers of existing service programs battled over whether the new program would be targeted at disadvantaged youth or would encourage race and class mixing. These struggles reflect the larger debate over the role of service in society. But in Waldman's account, they seem like self-interested actors pursuing their personal agendas with little regard for the public consequences of their actions.

The same discontinuity between the two versions of the story is evident in their descriptions of the enactment of student loan reform. Thomas Butts (1994) writes a compelling essay on the merits of direct lending. To him, it is a plan that saves money, improves service, reduces defaults, and cuts waste and fraud. On the other side, John Dean (1994) makes a strong case that the flaws in the FFEL program had been effectively corrected in the 1992 Reauthorization; and that direct lending will save no money, have no impact on defaults, and shift the administration of the program from experienced lenders to inexperienced bureaucrats.

These thoughtful arguments over the merits of the program are again largely absent from Waldman's version of the enactment of direct lending. In his account, the fight was a straightforward struggle for a limited pot of dollars. On the one side were the banking interests and their lobbyists determined to protect their profits. On the other side was Congressman William Ford. But in Waldman's view, Ford did not become the champion of direct lending out of a deep commitment to the idea. It was instead out of an affinity he felt for President Clinton. As Waldman describes it "Clinton appealed to Ford's inner politician, and the urge for action, progress, victory" (p. 167). This attachment was no doubt aided by the President's calculated strategy to flatter and charm Ford. Eli Segal makes clear that the Administration's effort to curry the Congressman's favor "had nothing to do with being nice; it had everything to do with being smart" (quoted in Waldman 1994, p. 167).

The different approaches even produce different accounts of who played important roles in the process. Letting the participants tell their own stories

"There were no public discussions and no reasoned debates. IRS collection just quietly disappeared from the proposal."

may seem like the best way to get the facts. But they are also the ones who have the most to gain by shaping the story to their advantage. This is evident in the way the books portray the role of Presidential advisor Eli Segal. After making national service a top legislative priority, President Clinton appointed Segal to oversee the enactment and implementation of the program. In Waldman's account, Segal was personally responsible for maneuvering the two bills through the legislative process. His skill in working with Congress is presented as saving the plan from certain defeat on several occasions. Yet, Segal's role is almost invisible in the Jennings volume. None of the essays point to him as a central figure. Segal's (1994) own short essay is little more than a cursory history of service programs and a brief review of the major features of the bill. As one would expect of a seasoned political operative, he minimizes his own role and credits instead the President and congressional leaders on both sides. But the other essays also limit their analysis to the more visible participants. As a result they overlook the less visible negotiations with the Administration to produce a bill and between the Administration and Congress to pass one.

Both versions of the story make clear that policy-making is fluid, complex, and unpredictable. The action of a few people, and their calculations about when to compromise and when to fight, shaped the final package. Had different players pursued different strategies, the outcome could have been dramatically different. National service could have been a small program placing disadvantaged high school dropouts as aides in health clinics. Or, it could have been the full-scale entitlement program Clinton originally proposed. Sometimes, calculations were based on judgments about the best way to achieve a program's objective. Often, however, they were driven by factors seemingly unrelated to national service or loan reform.

Perhaps the best example of the role of exogenous factors is found in Waldman's account of the decision to drop IRS collection of student loans. Clinton's original proposal promised to allow students to repay their loans with a portion of their income rather than at a fixed rate. This would reduce the burden that loans place on borrowers who go to work in low paying fields. To make this income-contingent repayment system work smoothly, the collector must have accurate data about the borrower's income. Because the IRS is the only agency with access to this information, it was the logical choice to take over collection responsibilities under the plan. However, authorizing the IRS to do this risked a confrontation over jurisdiction with the Chairman of the House Ways and Means Committee, Dan Rostenkowski, who felt his committee should be involved with all legislation regarding the IRS. The Administration was counting on Rostenkowski to captain their economic package in the House, which the President considered more important than national service. Rather than risking a battle with the Ways and Means Committee, the Administration simply dropped the idea of IRS collection. This forced the Administration to dramatically scale-back the income contingent repayment provisions that had been a central element of the original package. There were no public discussions and no reasoned debates. IRS collection just quietly disappeared from the proposal. This critical decision was so invisible that it does not find its way into the essays in the Jennings volume.

The Importance of Budget Scoring

Both Waldman's book and the essays in the Jennings compilation agree that scoring now plays a critical role in the legislative process. Scoring refers to the estimates of the costs of a program by the Congressional Budget Office and the Office of Management and Budget. For years, advocates of all types of loan reform had argued that government accounting practices were biased in such a way that federal direct loan programs appeared to be more expensive than federal loan guarantee programs. In response to such criticisms, Congress passed the Credit Reform Act of 1990. Under the Act:

[T]he full life-of-the-loan cost of subsidies and insurance are recognized on a present value basis at the time the loan is made. The process contrasts with pre-1990 law, under which only current year costs are recognized and not the future costs associated with the new loan program (Dean, 1994, p. 165).

This change in accounting procedures was essential in the enactment of both national service and student loan reform. It made the FFEL programs appear more expensive, reflecting more accurately the real long-term costs. It also made direct lending appear to be less expensive. The Jennings essays express sharply different positions on the merits of this scoring adjustment. In some essays, credit reform is seen as leveling the playing field and giving reforms like direct lending a chance to compete fairly. In others it is presented as a new distortion that underestimates the real costs of direct lending by disregarding the cost of new employees hired because of the new program. But everyone seems to agree that, as Dean describes it, "Congress almost certainly would not have enacted direct loans in 1993 had it not first changed the congressional budget procedures relating to federal credit programs" (p. 164). If direct lending could provide the same number of students with the same size loans for a substantially lower price, the President could then use those savings to reduce the price tag on national service and still offer student loans to almost everyone. It never seemed to matter to anyone whether those savings would actually materialize. All that mattered was that the Congressional Budget Office said that they would.

What Really Happened

These books were written with very different objectives. Jennings set out to "demystify the policy process" on the assumption that "Americans ought to understand how their government sets policy so that it can influence decisions being made at the national level" (p. vii). It is a specialized civics lesson in which the participants describe the process in their own words. Not surprisingly, these accounts ascribe to their authors only noble objectives and carefully reasoned arguments. The winners explain why the right decision was made. The losers explain how misunderstandings and shortsightedness led to the wrong decision. But all of the authors describe a generally open process in which many voices are heard.

Waldman's objective is quite different. The book jacket claims that he will expose the world of "Washington's cynical interest groups" and "poisonous capital culture" that now "infests even the most idealistic programs." In the subtitle of his book, he promises to reveal what is corrupt, comic, cynical, and noble about Washington politics. He proves adept at uncovering the

*“Power, strategy,
and money seem to be
at the heart of policy-
making.”*

corrupt, the comic, and the cynical. Nobility, however, does not appear until the final pages when it becomes clear that something important is about to emerge from the morass he has described. Waldman seems genuinely surprised that, in the end, the most powerful interests did not win an unequivocal victory, and that President Clinton was able to sign into law a bill that created a program similar to the one he had promised in his campaign.

In recent years, Americans have become extremely cynical about politics, especially national politics. Books like Waldman’s fuel that cynicism. Few of the participants seemed to care about how best to make student loans or how best to structure a service program. In reflecting on the course of the two bills, Waldman observes:

There was certainly plenty of conflict during the intertwined journeys of national service and student loan reform—but to a great extent it was meaningless conflict. The battle seemed always to center on the less important elements (p. 245).

He estimates that through the entire process, the debate over direct lending “absorbed 99% of the attention of staff, legislators, and interest groups.” This was not because it was the most important issue, but because so many lobbyists and financial interests had such a large stake in stopping it (p. 245). Equally troubling, innovations like IRS repayment were never heard about, not because they were bad ideas, but because no one was willing to fight for them. Power, strategy, and money seem to be at the heart of policy-making. Ideas for these programs were little more than rhetorical tools for advancing self-interest.

One reason Waldman’s account is so discouraging is that he ignores the ideas that animate the policy process. Jennings’ version of the story, on the other hand, is optimistic because it focuses on almost nothing else. The essays stress the important role that good intentions and personal convictions play in motivating the participants. To be sure, all were frustrated by certain aspects of the process. But none of the essays reveal the cynicism and implicit corruption Waldman’s account would infer. These authors all seem to respect one another, even as they are engaged in a vigorous debate over fundamental issues.

Taken together, these books show that national politics is about both interests *and* ideas. Certainly, the struggles for national service and student loan reform involved complex negotiations between self-interested individuals and groups, endowed with vastly different resources, who manipulated a complex and obscure process to try to gain an advantage. But they also involved genuinely and deeply felt disagreements over how best to improve access to postsecondary education and how best to encourage community service and rebuild a sense of community among alienated youth. Certainly lobbyists and financial interests had more influence on the final outcome than the disadvantaged. But the voices of the disadvantaged were also heard. Challenging the entrenched interests and changing the status quo is difficult, but it can be done. And, at least in this case, those challengers can actually win.

These books are both carefully done and packed with insights about national politics and higher education policy-making. Each makes an important contribution to a more complete understanding of why these policy changes happened and what they meant. Unfortunately, the two books are not

likely to have an equal impact. Because of its exposé character, and Waldman's skill as a storyteller, *The Bill* will gain a broad reading among academics and policy watchers. It is likely to become the most widely read and cited case study of higher education policy-making since Lawrence Gladieux and Thomas Wolanin's *Congress and the Colleges* (1978). It will be assigned in introductory political science classes and serve as a model for journalism students.

On the other hand, Jennings' volume will find its way onto only a few bookshelves and research libraries. Consequently, the creation of these important policy initiatives are likely to be remembered more for the behind-the-scenes intrigue than the ideas, ideals, and hard work of those who struggled to shape them. This, in turn, may serve to deepen public cynicism about politics and contribute to the further denigration of public service in American life. That would be unfortunate, since the real story of national service and student loan reform is as much about the power of ideas as it is about the power of special interests.

References

- Badow, Doug. (1994). National Service; Utopias Revisited. In *National Issues in Education: Community Service and Student Loans*, John F. Jennings (ed), pp. 71-83. Bloomington, Indiana, and Washington, DC: Phi Delta Kappa and The Institute for Educational Leadership.
- Butts, Thomas. (1994). Direct Loans: a New Paradigm. In *National Issues in Education: Community Service and Student Loans*, John F. Jennings (ed), pp. 131-157. Bloomington, Indiana, and Washington, DC: Phi Delta Kappa and The Institute for Educational Leadership.
- Commission on National and Community Service. (1993, January). *What You Can Do for Your Country*. Washington, DC: Commission on National and Community Service.
- Dean, John. (1994). Enactment of the Federal Direct Student Loan Program: a Reflection of the Education Policy Making Process. In *National Issues in Education: Community Service and Student Loans*, John F. Jennings (ed), pp. 157-179. Bloomington, Indiana, and Washington, DC: Phi Delta Kappa and The Institute for Educational Leadership.
- Ford, William. (1994). The Direct Student Loan Program: Acknowledging the Future. In *National Issues in Education: Community Service and Student Loans*, John F. Jennings (ed), pp. 101-114. Bloomington, Indiana, and Washington, DC: Phi Delta Kappa and The Institute for Educational Leadership.
- General Accounting Office. (1992, November). *Direct Loans Could Save Billions in First Five Years with Proper Implementation*. Washington, DC: Government Printing Office.
- Gladieux, Lawrence, and Wolanin, Thomas. (1978). *Congress and the Colleges*. Lexington, MA: Lexington Books.
- The Higher Education Amendments of 1992. (1992, August 5). *Chronicle of Higher Education*, A20-23.
- Jennings, John. (1994). Introduction. In *National Issues in Education: Community Service and Student Loans*, John F. Jennings (ed), Bloomington, Indiana, and Washington, DC: Phi Delta Kappa and The Institute for Educational Leadership.
- Jennings, John (ed). (1994). *National Issues in Education: Community Service and Student Loans*. Bloomington, Indiana, and Washington, DC: Phi Delta Kappa and The Institute for Educational Leadership.